# Memorandum

To: Loren Clark

From: Sal Van Etten and Robert Spencer

Date: *Revised* July 11, 2005

Re: Preliminary PCCP Financing Plan Discussion

## Introduction

The Placer County Conservation Plan (PCCP) for Western Placer County is nearing completion. The Agency Review Draft of the PCCP was completed in late February (February 22, 2005) and distributed to participating agencies for review and comment. Cost estimates for PCCP implementation, including cost estimates for land acquisition and restoration as well as estimates of ongoing costs such as program administration, land management, and biological monitoring, were also recently updated. A memorandum summarizing the PCCP progress and including the revised cost estimates was prepared by the Placer County Planning Department and presented to the Board of Supervisors on March 8 2005.

At the same time, several major development groups with significant holdings in West Placer have begun meeting with Placer County staff regarding their proposed future development projects. The participation of these projects in the PCCP is crucial to the Plan's success.

If the PCCP is adopted, the next important task will be preparation of a Financing Plan for implementation. There are a wide variety of funding sources and financing mechanisms available to local governments. But their applicability to the PCCP Financing Plan varies substantially because of statutory constraints. Political challenges include the need for voter approval in some cases. Additionally, based on our research to date there appear to be a variety of legal interpretations regarding the use of several funding mechanisms for habitat mitigation. Please note that no legal review by County Counsel or outside counsel of the potential funding mechanisms has been requested or conducted at this point.  Such review may be needed if certain funding sources are to be pursued.

## Purpose

The purpose of this memorandum is to identify strategic issues and corresponding policy decisions that need to be made regarding the PCCP Financing Plan. Several of these policy issues require action as quickly as possible if the County is to preserve the ability to take advantage of certain funding mechanisms in the future. Furthermore direction from the County on these issues is needed before MuniFinancial can proceed with a recommended Financing Plan.

## Outline

This memorandum is organized under the following sections:

- Overview of PCCP Financing Plan;
- Potential Funding Sources;
- Debt Financing Mechanisms; and
- Strategic and Policy Issues.

## Overview of PCCP Financing Plan

An overview of the sources and uses of funds for the PCCP Financing Plan is critical to understanding the funding needs and challenges of the Plan. Key concepts include:

- **Local** versus **state and federal** funding sources;
- Costs directly attributable to **new development** versus costs that provide more **general benefits**; and
- **One-time** funding sources and costs versus **ongoing** funding sources and costs.

### *Sources and Uses of Funds*

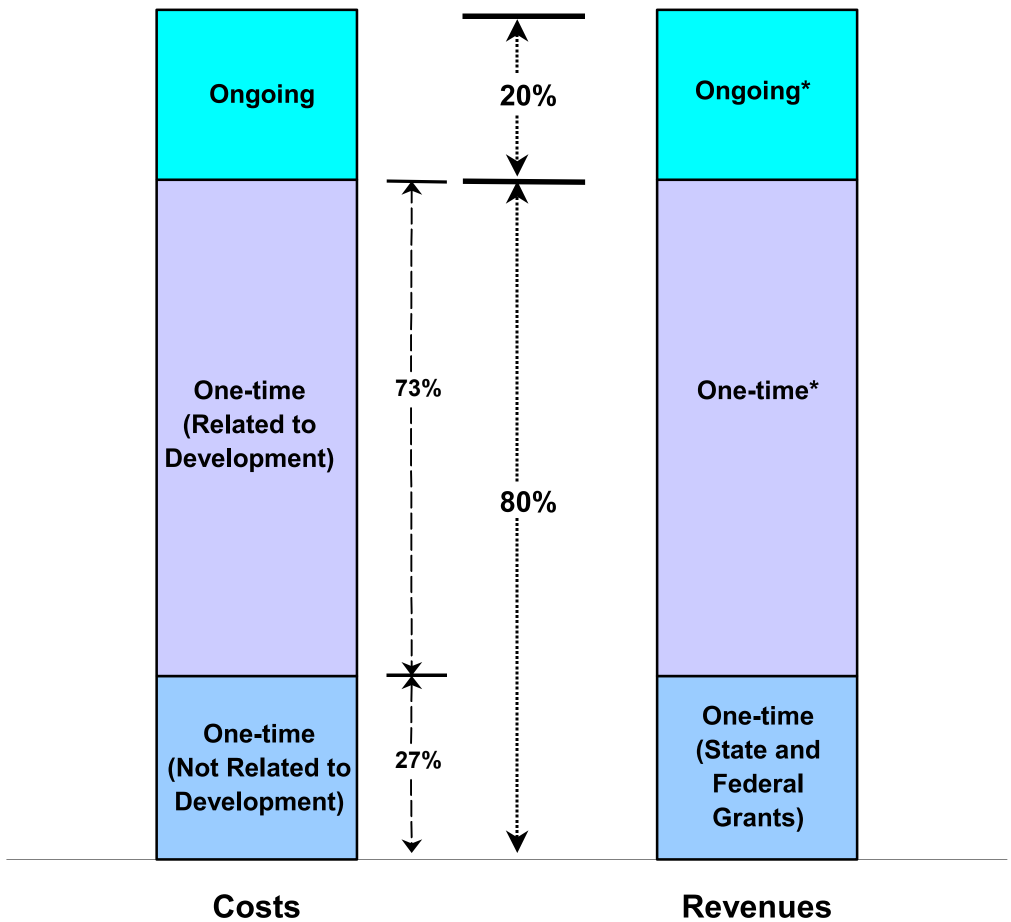
The latest costs estimates associated with the PCCP indicate that approximately 80 percent of total plan costs (during the first 50 years) will be for one-time costs. One-time costs primarily include land purchase, land restoration, and associated program administration. The remaining 20 percent of costs during the first 50 years are ongoing. These costs include land management, biological monitoring and adaptive management, and associated program administration. Ongoing costs will continue into perpetuity at an estimated $10 million annually (2004 dollars) after the first 50 years. These estimates are preliminary and subject to revision.

Critical to funding of the PCCP is the participation of state and federal agencies. The most recent draft of the PCCP anticipates that state and federal agencies will receive authorization to fund 25 to 30 percent (current estimates assume 27 percent) of total one-time costs identified in the PCCP. State and federal agencies likely will direct their contributions towards the acquisition of specific acres of habitat unrelated to new development impacts. The objective of these agencies is to fulfill species recovery and natural communities conservation policy objectives by expanding the total amount of habitat protected, thereby supplementing local mitigation to provide for ecosystem integrity. The remaining one-time costs (approximately 73 percent of total one-time costs) reflect mitigation for habitat reduction and other adverse impacts on species from new development.

This overview of sources and uses of funds is shown in the chart below.

PCCP Financing Plan Overview

(First 50 years)




* One-time revenues may be used to generate ongoing revenues through funding of an endowment.

## *Financing Plan Considerations*

This overview of sources and uses of funds suggests the preliminary approach for the PCCP Financing Plan:

- One-time sources, such as habitat mitigation fees on new development and federal and state grants, should be used to fund one-time costs.

   - The bulk of one-time costs are associated with the habitat acquisition and restoration to mitigate the impacts of new development. Habitat mitigation fees paid by new development are a one-time source and therefore appropriate for this purpose, though other one-time or ongoing sources could be used as well.
   - The remaining one-time costs are likely to be funded with state and federal contributions. These funds will **not be available to defray costs associated with the impact of new development**.
- Stable, continuing funding sources such as assessments and taxes should be used to fund ongoing costs in perpetuity.
   - One-time funding such as mitigation fees may indirectly fund ongoing costs by building an endowment that generates sufficient interest revenue in perpetuity (see additional discussion below).
   - The PCCP Financing Plan will need to identify local funding sources for ongoing management and monitoring costs associated with lands acquired with state and federal funds. These costs are not associated with the direct impact of new development and therefore funding cannot come from exactions (fees, assessments, etc.) imposed solely on new development.

In conclusion, although one-time costs are much larger in magnitude during the first 50 years of the PCCP, the more challenging task may be finding suitable funding sources for ongoing costs in perpetuity. The PCCP may not be able to rely solely on new development to fund these costs, and will need to spread funding more broadly among all property owners and/or taxpayers in the County. This approach is not inappropriate given the general benefits associated with species recovery and the preservation of open space.

## Potential Funding Sources

A wide variety of potential mechanisms available for PCCP funding are presented in this section. Each funding mechanism is first briefly described. Next, potential opportunities and constraints are identified. The category of costs (one-time and/or ongoing) each funding mechanism might best address is discussed.

Generally speaking, almost all of the funding mechanisms presented would be suitable for funding one-time costs. Some funding mechanisms may be restricted or be less suitable for funding ongoing costs. The potential funding sources are presented in order of those most likely to be used for one-time costs and to be funded primarily by new development through those which may be used for either one-time or ongoing costs but which require broader participation (new and existing development) and may be better used for ongoing costs.

A matrix summarizing the funding options follows the descriptions and discussion.

### Land Dedication / In Lieu Habitat Mitigation Fee

This funding source is an *ad hoc* exaction imposed on new development by the local agency with land use regulatory power. The County has this authority in the unincorporated area and each city has this authority within their respective jurisdiction. A summary description of this funding source as it relates to the PCCP Financing Plan includes:

- Authority to impose this type of exaction may be derived from several sources including state and federal regulatory requirements to preserve threatened and endangered species, the Subdivision Map Act[1], and the mitigation of environmental impacts identified through the California Environmental Quality Act (CEQA).[2]
- Infill development on existing lots not requiring further discretionary approval for development would not be covered, though this represents a small share of total development projected by the PCCP.
- The conditions of approval for a development project would include dedication of adequate habitat land in perpetuity sufficient to mitigate the negative impacts of the project based on the requirements of the PCCP.
- As an alternative to or in addition to land dedication, the project could pay a habitat mitigation fee. The fee would be calculated to fund the one-time costs of acquiring and restoring the land that otherwise would have been dedicated.
- Mitigation requirements would depend on the type of habitat being developed ("taken") by the project. There are different mitigation requirements (ratios of acres taken to acres required for mitigation) for different habitat categories (e.g., vernal pools, grass land, Oak woodlands, riparian corridors).

Imposing a mitigation requirement for land dedication and/or payment of fees for land purchase is probably the simplest and most practical funding option for the PCCP.

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[1] *California Government Code* Section 65913.8.

[2] Exactions must conform to the "dual nexus" and "rough proportionality" constitutional tests described in case law.

Land dedications and/or fees are one of the most commonly used funding mechanisms for habitat conservation plans in California. Indeed, some large developers active in Placer County have purchased land for habitat mitigation in anticipation of a dedication requirement.

Land dedication has a distinct advantage over other funding sources. Future land price escalation is difficult to estimate, highly variable, and can be significant (over 10 percent annually) in areas subject to development pressure such as Placer County. Land dedication avoids the need to ensure that the habitat mitigation fee and any other funding sources for land acquisition will increase with land price escalation over time. The Board of Supervisors can increase habitat mitigation fees as land prices escalate. However, a lag in this process or any adjustment that does not keep up with land prices could jeopardize full funding of the PCCP.

### Use of Fee Revenue For Ongoing Costs

One-time fees could be justified to fund ongoing costs in perpetuity through contributions to an endowment, though the statutory authority is unclear. A clear justification exists to augment habitat mitigation fees sufficient to fund management of the habitat required to mitigate impacts of the development project paying the fee. Indeed some fees imposed on new development as part of existing habitat conservation plans fund ongoing costs.[3]

However, in general one-time fees on new development, including in lieu mitigation fees and development impact fees (discussed below) rarely fund ongoing costs. Furthermore, there may be a statutory constraint on the use of fee revenues for operations and maintenance.[4] Further legal analysis is needed to determine whether fee revenues could be used for ongoing costs.

## Development Impact Fee

Another type of exaction on new development is the development impact fee imposed under the Mitigation Fee Act[5]. Similar to the in lieu habitat mitigation fee, this fee could be based on the type of habitat being developed ("taken") by the project. Unlike the in lieu habitat mitigation fee, this approach would not be based on a land dedication requirement. However, a development project could choose to dedicate habitat and receive a credit against the impact fee due.

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[3] See for example mitigation fees adopted for the *Western Riverside County Multiple Species Habitat Conservation Plan* and the *Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan*.

[4] *California Government Code* Section 69513.8.

[5] *California Government Code* Sections 66000 through 66025.

An advantage of the impact fee compared to the land dedication/habitat mitigation fee is the possibility to impose the fee on all new development including infill projects. Impact fees must be adopted based on findings of reasonable relationships between the development paying the fee, the need for the fee, and the use of fee revenues. Further technical analysis is required to establish this relationship for infill development, though this probably could be done based on the indirect impacts of growth on the loss of habitat.

As discussed above regarding habitat mitigation fees, further legal analysis is needed to determine whether fee revenues could be used for ongoing costs.

### Conservation Easements

Conservation easements are a funding source in the sense that they reduce the cost of land acquisition. A conservation easement purchased from a landowner requires that the land remain in its current state in perpetuity. Easements preserve habitat without transferring title to a public entity. The landowner can continue certain farming or grazing activities if those activities are compatible with habitat requirements.

This funding source is only for land acquisition and does not fund any ongoing costs such as biological monitoring. Current PCCP cost estimates assume that 28 percent of needed habitat will be acquired by easement rather than fee title purchase.

### Community Facilities Districts (Special Tax)

The Mello-Roos Community Facilities Act of 1982 enables the formation of Community Facilities Districts (CFDs) by local agencies.[6] for the purpose of imposing special taxes on property owners. CFDs are primarily used as a way to finance public facilities with debt financing secured by a lien on property within the district, though certain ongoing public service costs may be funded as well.

A summary description of this funding source as it relates to the PCCP Financing Plan includes:

- CFD approval requirements make this funding source primarily attractive to development projects on undeveloped land.[7]
- A key advantage of this funding source compared to benefit assessment districts is flexibility. CFDs impose *special taxes* on property owners not

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[6] *California Government Code* Sections 53311 through 53368.

[7] Areas with fewer than 12 registered voters can form a district with a two-thirds property owner vote based on acreage essentially allowing the developer(s) to form the district. Areas with 12 or more registered voters require two-thirds registered voter approval making this approach less attractive for developed areas.

*special assessments* discussed below with regards to benefit assessment districts.

  - The amount of special tax paid by land use type can be based on any type of rate and method approved by the property owners when forming the CFD. This allows the developer significant flexibility to spread the burden of the special tax across different land uses within the district as economic factors warrant.
  - Special tax revenue may be used for a broad range of public capital facilities and services designated in the law. Unlike special assessments, special taxes are not constrained by the special benefit received by a property.
  - CFDs can fund open space whether located inside or outside the district.

- The only possible limitation of the use of special tax revenue may be for ongoing costs. Further legal analysis is needed to evaluate this issue.
- Similar to benefit assessments, CFD special tax liens on property may be used to secure debt financing. Debt capacity is limited by:
  - A minimum ratio of the value of a property to the property's share of debt in case of default, typically no less than 3:1.
  - A maximum annual property tax rate of two percent of market value, including the base property tax, the CFD special tax, and all other overlapping debt, assessments, and charges.

There are several examples of CFDs funding open space and habitat preservation. Solano County and the City of Fairfield have used a CFD to fund open space acquisition. The Fort Ord Reuse Authority uses a CFD to fund all costs associated with the habitat mitigation requirements of redevelopment of the former military base, including contributions to an endowment to fund ongoing costs.

### Benefit Assessment Districts

Benefit assessment districts allow for the imposition of annual benefit assessments on property owners commensurate with the annual costs of an identified special benefit to that property. There are a number of different types of benefit assessment districts authorized by California State law. Some are limited to provision of public facilities (often using debt financing secured by a lien on property within the district) and some allow funding of operations and maintenance. Lighting and Landscaping Districts (L&Ls) are an example of one commonly used benefit assessment district.

Benefit assessment districts have certain requirements that limit, but not eliminate, their applicability to the PCCP:

- Benefit assessments can only fund facilities or services that provide a *special* benefit to a distinct group of properties owners. Special benefits must be in addition to any *general* benefits accruing to all properties in a jurisdiction. An increase in property value alone does not qualify as a special benefit.
- Property owners must approve a benefit assessment by majority vote.[8] This constraint means that assessments are easier to impose on new development projects as a condition of approval, rather than more broadly on all property owners.
- Property owners can repeal an existing benefit assessment using an initiative process unless the assessment is funding repayment of debt.

Benefit assessments are often imposed as a condition of approval for development projects, similar to land dedication requirements, habitat mitigation fees, and development impact fees discussed above. The key difference is that benefit assessments allow for an ongoing revenue stream and therefore make them more suitable to fund ongoing costs. Unlike one-time fees paid by the developer, the funding burden falls on future property owners.

Several independent special districts have received majority property owner approval in existing developed areas to fund benefit assessments to preserve open space. This approach can provide a substantially higher level of funding compared to assessments imposed only on new development projects. However, these assessments have been challenged in the courts based in part on the assertion that they provide general and not only special benefits. Further legal analysis is needed to determine the applicability of this funding mechanism.

### Habitat Maintenance Assessment Districts

Habitat maintenance assessment districts, enabled in 1994 by the State Legislature, are a type of benefit assessment district that appears to be designed for programs such as the PCCP.[9] Habitat maintenance assessment districts can be used to fund improvements including "[t]he acquisition, construction, or rehabilitation of any facilities needed to create, restore, enhance, or maintain natural habitat"[10] and can also be used to cover "incidental expenses" including but not limited to the costs of "biological monitoring and evaluation of collected data related to the establishment or operation of natural habitat."[11] These districts can be formed to implement "a long-

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[8] The vote is based on acreage weighted by the amount of the assessment.

[9] *California Government Code* Sections 50060 through 50070.

[10] Ibid. Section 50060(b)(1).

term natural habitat maintenance plan approved by the Department of Fish and Game".[12]

We do not know of any existing habitat maintenance districts so this funding source appears to be untested. This lack of use may be caused by the difficulty of demonstrating special benefit to certain property owners separate from general benefits to all property owners, as discussed above. Further legal analysis is needed to determine the applicability of this funding source.

Habitat maintenance districts have other constraints. Current law limits assessments to $25 per parcel (inflated to approximately $33 per parcel in 2005 dollars). Rough PCCP cost estimates indicate that at this level a habitat maintenance assessment would fund about one-third of projected annual ongoing costs. Habitat maintenance assessment districts are also limited to 30-year durations and imposition of the assessment upon most agricultural land is prohibited. The law could be amended to reduce these constraints. If so, habitat maintenance assessment districts could be a useful funding source for the PCCP Financing Plan especially for ongoing costs.

### Community Services Districts

Community Services Districts (CSDs) are an alternative local governance structure for providing municipal facilities and services to an area.[13] CSDs may be seen as an alternative or complement to the typical roles played by cities (in incorporated areas) or counties (in unincorporated areas). A summary description of this funding source as it relates to the PCCP Financing Plan includes:

- Initiation of the formation process may be done by petition submitted by residents located within the proposed district, or by a city or county within which the district will be located.
- Formation of a CSD requires approval of the Local Agency Formation Commission (LAFCO) and a majority vote of registered voters with the proposed district.
- An independent board elected by registered voters within the district governs the CSD.
- Implementation of a benefit assessment or property related charge requires a majority vote of property owners. Imposition of a special tax requires two-thirds approval by registered voters.

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[11] Ibid. Section 50060(c)(7).

[12] Ibid. Section 50060.5(a).

[13] *California Government Code* Section 61000.

Placer County likely would have to seek special state legislation to provide for a CSD with the power to acquire, restore, and maintain habitat. The law does not appear to grant CSDs a general power for these purposes.[14] However, the CSD law includes a plethora of special authorizations for specific CSDs throughout the State. One special authorization allows formation of the Mountain House CSD in San Joaquin County in part for the ability to "[a]cquire, own, maintain, and operate land for wildlife habitat mitigation or other environmental protection or mitigation within or without the district."[15]

Finally, governance by an independently elected board could create overly complex relationships for implementation of the PCCP. Placer County and cities included in the PCCP would need the CSD to provide adequate funding for the PCCP to enable development to proceed and support implementation of their General Plans. Accountability to state and federal wildlife agencies for implementation would now be spread among more local agencies. This issue could be addressed in the special legislation mentioned above by making the CSD a dependent district and having the Board of Supervisors act as the CSD board.

### Agricultural Lease Revenues

Some land may be suitable for farming or grazing without compromising the preservation of habitat for endangered or threatened species. This type of land could generate lease revenue if it is acquired in fee title rather than maintained through an easement. Lease revenue could be used for any one-time or ongoing cost. However, this funding source is not expected to yield a significant amount of revenue for the PCCP Financing Plan.

### Parcel Tax

Parcel taxes are a type of excise tax on the use of property. Widely used throughout the state, these taxes are adopted as a special tax dedicated to specific purposes. All special taxes require two-thirds voter approval. Thus, the greatest challenge for this funding source is gaining countywide voter approval.

The greatest advantages of a parcel tax are (1) the large and stable potential funding base from a countywide tax, and (2) the flexible use of revenues. Parcel taxes are usually levied as a flat amount per parcel with variances by major land use categories. The parcel tax rate must not be correlated with assessed value to avoid being considered a property tax subject to the constraints of Proposition 13. The parcel tax

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[14] Ibid. Section 61600.

[15] Ibid. Section 61601.26(e).

on a specific property need not be correlated with the benefit received by that property from the expenditure of tax revenues.

### Sales Tax

A sales tax is another type of jurisdiction-wide excise tax, in this case imposed on retail sales transactions within the jurisdiction. Voters can elect to increase the sales tax in one-eighth of a cent increment. The sales tax would share the same advantages (broad-based, steady, and flexible funding source) and disadvantages (voter approval) as the parcel tax discussed above.

An attempt to increase the sales tax by a quarter-cent in Placer County to fund open space acquisition failed in 2000. A potentially more effective approach would be to include some habitat mitigation funding in a broader sales tax measure to fund popular transportation improvements. In the Coachella Valley area of Riverside County, approximately $30 million from a half-cent sales tax measure for transportation improvements is being allocated to habitat mitigation as is approximately $121 million in the Western Riverside Multiple Species Habitat Conservation Plan [16]. These costs represent the direct, indirect, and cumulative effects of transportation projects on natural habitats.

### Other Local Sources

Some opportunities for inter-agency cooperation regarding funding implementation of the PCCP may exist. Possible partner agencies include the Placer County Water Agency (PCWA) and the Placer County Flood Control & Water Conservation District. Both of these agencies will be engaged in "covered activities" – actions that will potentially require habitat mitigation. Consequently, there is an incentive for them to cooperate in finding funding sources for the PCCP.

There may be some activities, especially those involving watershed protection, that may further both the goals of the PCCP and the Placer County Flood Control & Water Conservation District. The County should communicate and coordinate with the District to identify any potential common efforts that could share funding.

Finally, other local sources of revenue used by other habitat conservation plans include landfill tipping fees. The Western Riverside County Multiple Species Conservation Plan and the Coachella Valley Habitat Conservation Plan rely on a share of fees generated at a landfill being used to accommodate waste from outside the County.

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[16] MuniFinancial, *Development Mitigation Fee,* fee study completed for the *Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan*, 2004 (study still in administrative draft stage).; Western Riverside Multiple Species Habitat Conservation Plan (June 2003).

### Summary

The matrix on the next page summarizes the key characteristics of the potential PCCP Financing Plan funding sources described above.

## Debt Financing Mechanisms

This section of the memorandum describes some potential financing mechanisms and related issues for the PCCP Financing Plan. Without the use of financing mechanisms, the PCCP Financing Plan would have to rely on a "pay-as-you-go" approach.

### Endowment for Ongoing Costs

The PCCP Financing Plan could recommend establishment of an endowment to pay for some or all of the ongoing costs in perpetuity. This is a common approach for funding habitat conservation plans. As mentioned above, endowments can provide a vehicle for converting one-time habitat mitigation and development impact fees into an ongoing funding source. Any of the other local funding sources could be used as well to establish an endowment.

A very large endowment would be required to generate enough income for ongoing costs once land acquisition and restoration has been completed. Long-term annual ongoing costs are estimated at about $10 million in 2005 dollars once all land has been acquired. This level of funding could require a $200 million to $500 million endowment depending on investment policies.

The higher endowment level would be needed if endowment fund management were constrained by the County's conservative investment policy. Current policy constraints result in investment yields of approximately two percent annually. Alternatively, fund management could be transferred to:

- A separate local private entity such as the existing Placer Land Trust;
- Another existing entity that provides endowment management service such as the Center for Natural Lands Management; or
- An entirely new non-profit entity formed specifically for this purpose.

In any of these cases, a separate non-profit entity could operate under less restrictive investment policies. Such an approach may generate higher investment yields through a more diversified investment portfolio with an acceptable level of risk.

# Potential Funding Sources

## Key Characteristics

| Funding Source | Use of Funds: One-time Costs | Use of Funds: Ongoing Costs | Use of Funds: Debt Financing | Source of Funds: New Develop-ment Only | Source of Funds: Broad Geogra-phic Areas | Annual Revenue: Potential Amount | Annual Revenue: Stability | Voter Approval | Other Issues: Add'l Legal Analysis | Other Issues: Special Legislation |
|---|---|---|---|---|---|---|---|---|---|---|
| Land Dedication / Habitat Mitigation Fee | Yes | Use Endowment | No | Yes | No | Low / Moderate | Variable | No | No | No |
| Development Impact Fee | Yes | Use Endowment | No | Yes | No | Low / Moderate | Variable | No | Yes | No |
| Conservation Easements | Yes | No | No | No | Yes | Low | Variable | No | No | No |
| Community Facilities District | Yes | Maybe | Yes | Yes | Yes | Low / Moderate | Stable | Landowner or Voter[1] | Yes | no |
| Benefit Assessment Districts | Yes | Yes | Yes | Yes | Yes | Low / Moderate | Stable | Land-owner[2] | Yes | No |
| Habitat Maintenance Assessment Districts | Yes | Yes | No | Yes | Yes | Low / Moderate | Stable | Land-owner[2] | Yes | Yes |
| Community Services Districts | Yes | Yes | Yes | No | Yes | Low / Moderate | Stable | Landowner or Voter[3] | No | Yes |
| Agricultural Leases | Yes | Yes | No | No | Yes | Low | Stable | No | No | No |
| Parcel Tax | Yes | Yes | Yes | No | Yes | Moderate / High | Stable | Voter[4] | No | No |
| Sales Tax | Yes | Yes | Yes | No | Yes | Moderate / High | Stable | Voter[4] | No | No |
| Other Local Sources | Yes | Yes | TBD | No | Yes | TBD | TBD | TBD | TBD | TBD |

Note: "TBD" is To Be Determined.

[1] Approval requires a two-thirds vote of property owners based on acreage, or if 12 or more voters are registered within the proposed district then approval requires a two-thirds vote of registered voters.
[2] Approval requires a majority vote of property owners weighted by the amount of the assessment.
[3] Approval of district formation requires a majority vote of registered voters. Approval of a new assessment or charge requires a majority vote of .property owners weighted by the amount of the assessment.
[4] Approval requires a two-thirds vote of registered voters.

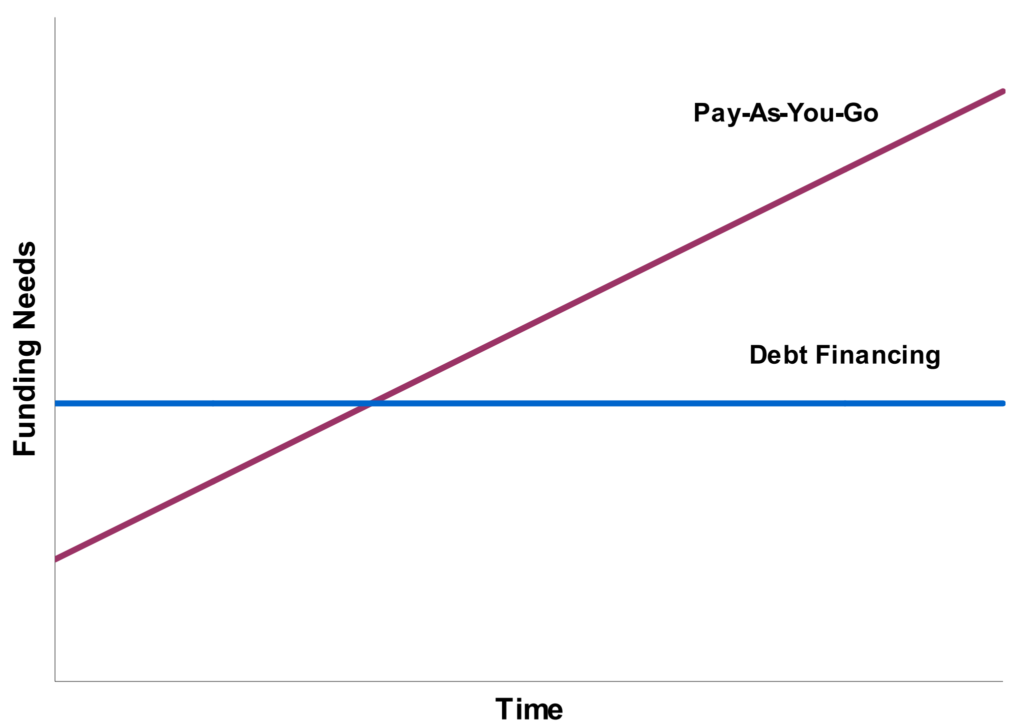
Source: MuniFinancial.

## Financing Land Acquisition Early In The Program

Another important issue is the potential for lowering overall program costs with land acquisition early in the life of the PCCP. As mentioned above regarding land dedication, future land price escalation is difficult to estimate, highly variable, and can be significant (over 10 percent annually) in areas subject to development pressure such as Placer County and where mitigation land will become increasingly scarce. To the extent that land prices would escalate faster than the cost of debt financing, total land acquisition costs would be lowered by borrowing funds to acquire land sooner compared to a "pay-as-you-go" approach.

The graph below illustrates these points. A "pay as you go" approach initially requires less revenue compared to a debt financing approach, but funding needs rise in the later years due to land price escalation. Under the debt financing approach, funding needs are greater initially to acquire more land sooner and fund the cost of debt. However, funding needs remain constant over time under this approach assuming a typical debt structure that generates level debt service costs.

### Financing Land Acquisition



### SCIP Program

The Statewide Community Infrastructure Program (SCIP) is a new program made available through the California Communities Joint Powers Authority. The SCIP allows for financing of development impact fees through issuance of 1913/1915 Act special assessment bonds. Instead of developers paying the fee, the local jurisdiction receives funding through SCIP and future property owners pay the fee over time as an assessment. SCIP is designed for development projects that are too small to efficiently form a financing district and issue debt to fund impact fees.

The SCIP provides two program alternatives, an Impact Fee Reimbursement Program or an Impact Fee Pre-Funding Program. Under both programs the developer must agree to form an assessment district to pass the costs of the program onto future property owners within the development.

- *Impact Fee Reimbursement Program:* The developer pays the impact fees at the time a building permit is issued. SCIP then reimburses the developer.
- *Impact Fee Pre-Funding Program:* The local jurisdiction receives impact fee revenue when the tentative map is approved for all lots recorded on the map. The developer does not pay a fee at time of building permit.

The Pre-Funding Program would generate funds earlier in the development process compared to the payment of habitat mitigation or impact fees. This would enable earlier acquisition of habitat land. To date all SCIP financings have been for the Impact Fee Reimbursement Program. Incentives may be needed for developers to participate in the Pre-Funding Program.

## Strategic and Policy Issues

This concluding section highlights key strategic issues for Board of Supervisors consideration. Each strategic issue includes related policy choices that are also presented. Items requiring immediate or near term Board of Supervisor action are noted. All strategic and policy issues presented here will eventually need to be addressed to guide preparation of the financing plan for the PCCP.

### Strategic Issue 1: Facilitating Early Land Acquisition

Upfront purchase of conservation lands should be considered. Additional financing costs should be weighed against the estimated future cost of increasingly scarce land. Early land acquisition will diminish the possibility that conservation land prices will outpace the funding available for land acquisition.

#### Reserve Debt Capacity In New Development Projects To Finance Land Acquisition

Several developers with large landholdings in the PCCP Phase I area have begun meeting with the County regarding infrastructure planning and financing. To the extent that a development project will not be dedicating land for habitat, the County should seek the ability to finance land acquisition through a benefit assessment district, Community Facilities Districts (CFDs), or the SCIP pre-funding program.

To implement this policy the County will need to ensure that some share of total estimated debt capacity for the development project (e.g. 5 to 20 percent) is reserved as a condition of approval. The County may want to require initial projects to fund more land acquisition than their direct mitigation needs and use fee revenues from future projects for reimbursement.

**Policy direction on this issue is needed as soon as possible to incorporate into current development proposals.**

#### Encourage Land Dedication Over Fee Payment

Land dedication of habitat should be encouraged. To the extent that land is dedicated overall PCCP implementation costs will be lower. Land dedication also reduces the chance that plan implementation will be flawed because impact fee revenues do not keep pace with escalating land prices and funding becomes insufficient for PCCP implementation. The Natomas Basin conservation effort encountered this problem so severely that it has since switched to a policy of land dedication only.

Some landowners likely will not be able to fulfill their mitigation requirements through land dedication alone. Consequently the PCCP should retain a habitat mitigation fee option. Care should be taken to assure that the fee is adjusted as often as is necessary to keep pace with rising land costs. If fees lag behind current land acquisition costs landowners will have an economic incentive to pay the fee and not dedicate land, and the PCCP will lack the funds needed for full implementation.

The Board of Supervisors should indicate whether they agree or not with the policy direction indicated above to encourage land dedication over payment of fees. Options can be further evaluated as the PCCP Financing Plan is developed.

### *Strategic Issue 2: Balance Risk and Return on Investments*

Policy direction is needed regarding the balance between risk and return on funding sources for ongoing PCCP costs. There are two types of risk considered here: investment risk and political risk.

### Funding Ongoing Costs With An Endowment Versus Other Sources

Ongoing costs could be funded with income generated by an endowment. Advantages of an endowment include a stable stream of income for ongoing PCCP costs, and the ability to demonstrate to state and federal wildlife agencies that the PCCP is fully funded. Disadvantages include exposure to investment risk and the cost of investment management. The level of these risks and costs would depend on the structure or entity managing the funds, as discussed above.

Alternatively, ongoing costs could be funded on a "pay-as-you-go" basis with annual special benefit assessments or CFD special taxes. These revenues streams would also be relatively stable but would only grow incrementally over time as development proceeds. There is virtually no investment risk associated with assessments or special taxes, and investment management costs are negligible. However, assessments are more difficult to approve and are subject to repeal by landowners or the electorate.

Finally, other revenue sources such as parcel taxes or sales taxes could provide a more stable source for endowments.

The Board of Supervisors should provide preliminary policy direction at this time regarding the use of an endowment for ongoing costs. These options can be further evaluated as the PCCP Financing Plan is developed.

### Public vs. Private Endowment Management

To the extent that the County is willing to accept higher risk on investments, the potential for greater return on those investments increases. A prudent approach could likely reduce overall PCCP costs while keeping investment risk within acceptable boundaries. Conversely, if the County is uncomfortable with higher risk investments, any endowment created for PCCP implementation will require more funding.

If the County wishes to retain control over PCCP mitigation funds received, investment returns will be limited by the County's fairly conservative existing investment policy (currently constraining yields to approximately two percent annually.) Alternatively, the County could designate an existing entity and/or a new non-profit entity could be created separate from the County. This entity would act independently to implement the mission of the PCCP. Financial management would be controlled by the entity and investments would not be subject to the County's current investment policy, hence investment could be subject to higher risk and returns. Higher returns would lower the overall cost of the PCCP by decreasing the size of the endowment.

Assuming that an endowment will be part of the PCCP Financing Plan, the Board of Supervisors should give policy direction regarding favored options for endowment management (County, existing non-profit entity, new non-profit entity).